

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-1-E - ORDER NO. 2007-440
JULY 20, 2007

IN RE: Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. – Annual Review of Base Rates for Fuel Costs)))))	ORDER APPROVING BASE RATES FOR FUEL COSTS AND ADOPTING SETTLEMENT AGREEMENT
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I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the annual review of base rates for fuel costs of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (“PEC” or the “Company”). The procedure followed by the Commission is set forth in S.C. Code Ann. § 58-27-865, as amended by Senate Bill 431 (2007 S.C. Acts 16). The parties to the case filed a Settlement Agreement prior to the hearing. The Settlement Agreement is attached as Order Exhibit 1.

II. JURISDICTION OF THE COMMISSION

By statute, the Commission may, upon petition, ascertain and fix just and reasonable standards, classifications, regulations, practices or service to be furnished, imposed, observed, and followed by any or all electrical utilities. S.C. Code Ann. Section 58-27-140 (1) (Supp. 2006). Further, S.C. Code Ann. Section 58-27-865 (B) (Supp. 2006) states, in part, that, “upon conducting public hearings in accordance with law, the commission shall direct each company to place in effect in its base rate an amount

designed to recover, during the succeeding twelve months, the fuel costs determined by the commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period.”

Further, the Settlement Policies and Procedures of the Commission (Revised 6/13/2006) are pertinent to the matter before the Commission and consistent with its statutory duties. Section II of that document (“Consideration of Settlements”) states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission’s consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

Acting pursuant to the requirements of S. C. Code Ann. Section 58-27-865 (B) (Supp. 2006) and the statutory duties reflected in this Commission’s Settlement Policy, this Commission convened “an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” No statute has changed the duties of the Commission in this regard.

III. DISCUSSION OF THE HEARING AND THE SETTLEMENT

AGREEMENT

The public hearing was held at the offices of the Commission on June 13, 2007, with the Honorable G. O’Neal Hamilton, Chairman, presiding. At the hearing, Len S. Anthony, Esquire, represented the Company. John W. Rabb, Jr., Esquire, and Garrett A. Stone, Esquire, represented Nucor Steel-South Carolina (“Nucor”). Nanette S. Edwards, Esquire, and Shealy Boland Reibold, Esquire, represented the South Carolina Office of Regulatory Staff (“ORS”).

At the beginning of the hearing, the parties presented the Settlement Agreement which is attached hereto as Order Exhibit #1. The parties also presented witnesses in support of the Agreement and on various matters related to base rates for fuel costs. Bruce P. Barkley presented both direct and supplemental direct testimony on behalf of the Company, sponsored composite Hearing Exhibits 1 and 2, and sponsored the Settlement Agreement (which was admitted into the record as Hearing Exhibit 3). Mr. Barkley testified that the Agreement is in the public interest and “allows PEC to recover its just, reasonable and prudent fuel cost in an equitable and fair manner and properly implements the intent and spirit of Senate Bill 431.” Dewey S. Roberts also presented direct testimony on behalf of the Company and sponsored composite Hearing Exhibit 4. ORS presented the testimony of Jacqueline R. Cherry, who also sponsored composite Hearing Exhibits 5 and 6. Ms. Cherry also testified in support of the Settlement Agreement.

The parties concluded that, in accordance with S.C. Code Ann. § 58-27-865(A)(1), as revised by the recently enacted 2007 S.C. Acts 16, PEC's fuel factor should be split into two separate components. The terms of the Settlement Agreement address each of these components. Details of the Settlement Agreement are described below.

First, PEC's fuel factor, exclusive of the environmental component, is set at 2.651 cents per kWh. This factor is determined by adjusting PEC's proposed 2.675 cents/kWh fuel factor to reflect the removal of \$20 million of total system forecasted SO₂ emission allowance costs, plus the ORS adjustments set forth in ORS Witness Cherry's testimony.

Second, the specific environmental component billing factors (to recover the forecasted SO₂ emission allowance costs removed from the other component of the fuel factor) for each rate class are as follows:

Rate Class	Environmental Component Billing Factor (cents/kWh)	Environmental Component Billing Factor (cents/kW)
Residential	0.031¢	
General Service (non-demand)	0.030¢	
General Service (demand)		8¢
Lighting	0.00000	

The revised fuel factor, consisting of the two components, shall be effective for the period beginning with the first billing cycle of July 2007 extending through the last billing cycle of June 2008.

As a result of the enactment of 2007 S.C. Acts 16, and specifically the amendments to S.C. Code Ann. § 58-27-865(A) (1), which became law after PEC's direct testimony was filed in this proceeding, the parties agreed to the methodology that establishes the separate environmental component of the fuel factor to recover PEC's "variable environmental costs," which in this proceeding consists of PEC's SO₂ emission allowance costs. As a result, in the Settlement Agreement the parties have applied the statutorily prescribed method for determining the environmental component of the fuel factor. The Settlement Agreement provides that the methodology established in the Agreement shall be utilized to recover all "variable environmental costs" in all future PEC fuel proceedings.

The method agreed to by the parties, based on the recent statutory amendments prescribing the allocation process, consists of the following steps: (1) The South Carolina retail portion of PEC's variable environmental costs shall be allocated among the following customer classes: residential; GS (non-demand); GS (demand); and Lighting, based on the firm demand contribution of each such class to PEC's coincident South Carolina firm peak demand for the prior year. Curtailable and/or interruptible loads are not firm loads and shall be excluded from the class demands and jurisdictional demand for allocation purposes. (2) For the GS (demand) class, which uses billing demands, the environmental component shall be designed to recover the costs allocated to it by establishing a monthly charge per kilowatt of demand. For those GS (demand) customers that subscribe to curtailable rate schedules, the charge per kilowatt shall be applicable only to their Firm Billing Demand (kW). Specifically, the environmental cost

allocated to the GS (demand) class shall be divided by the projected Firm Billing Demands (on-peak only for time-of-use schedules) to calculate the specific environmental component demand charge. In determining the projected Firm Billing Demands for the recovery period for those customers that subscribe to curtailable rate schedules, only their Firm Billing Demand shall be included. (3) For the GS (non-demand), Residential and Lighting classes the environmental component shall be designed to recover the costs allocated to such classes by establishing a monthly charge based on projected annual kWh usage. (4) Any under- or over-recovery of the environmental component shall be accumulated and included in the variable environmental cost for recovery in the next fuel proceeding.

PEC committed in the Settlement Agreement to provide the parties in advance of filing in subsequent fuel cases work papers showing its calculations of the rate class allocations and environmental component charges, along with any proposed revisions to the rate schedules, to ensure that they comport with the Settlement Agreement.

Pursuant to the settlement agreement approved in Docket No. 2006-1-E, the increased revenue generated by the fuel factor shall be used to first reduce the actual PEC under-recovery in the manner described in that settlement agreement.

The determination of what adjustments or true-ups are necessary, if any, concerning a settlement of a lawsuit involving PEC and a coal supplier executed in January 2007, will be addressed in the next fuel proceeding, and that PEC will continue to meet the requirements of the settlement agreements in Docket Nos. 2005-1-E and 2006-1-E, including, but not limited to, the requirement to inform the parties and PEC's

customers on a quarterly basis as to the expected fuel factors to be set in PEC's next annual proceeding. The parties agree to accept all the accounting adjustments as put forth in ORS Witness Cherry's testimony and, except with respect to the PEC lawsuit involving a coal supplier noted above, the parties agree that any and all challenges to PEC's historical fuel costs and revenues for the period ending March 31, 2007, are not subject to further review. However, fuel costs and revenues for periods beginning April 1, 2007, and thereafter shall be open issues in future proceedings and will continue to be trued-up against actual costs in such proceedings.

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW

After having heard the testimony of the witnesses and representations of counsel, and based on the Commission's review of the Settlement and Settlement exhibits and the pre-filed testimony and exhibits submitted during the hearing, the Commission finds that approval of the Settlement Agreement is consistent with the standards for fuel review proceedings conducted pursuant to S.C. Code Ann. § 58-27-865, as amended by 2007 S.C. Acts 16. The settlement proposal allows recovery in a precise and prompt manner while assuring public confidence and minimizing abrupt changes in charges to customers. As such, it is a reasonable resolution of the issues in this case. The methodology for determining the environmental component billing factor agreed to by the parties is consistent with the statutory requirements of S.C. Code Ann. § 58-27-865, as amended, and is just and reasonable.

We also find that the proposal agreed to by the parties in the Settlement Agreement provides stabilization to the fuel factor and minimizes fluctuations in the near

future. Additionally, the Commission finds that the resolution espoused in the Settlement Agreement does not appear to inhibit economic development. Finally, the Commission finds and concludes that the Settlement Agreement affords all parties the opportunity to review costs and operation data in succeeding fuel proceedings.

IT IS THEREFORE ORDERED THAT:

1. The fuel purchasing practices, plant operations, and fuel inventory management of PEC are prudent.
2. The Settlement Agreement is hereby approved, adopted, and incorporated herein by reference, and is found to be a just and reasonable resolution to the issues of this case.
3. PEC shall set its fuel factor (not including the environmental component) at 2.651 cents per kWh effective for bills rendered on and after the first billing cycle of July 2007, and continuing through the billing month of June 2008.
4. PEC shall set its environmental component billing factor at 0.031 cents per kWh for the Residential class, 0.030 cents per kWh for the General Service (non-demand) class, and 8 cents per kW for the General Service (demand) class for bills rendered on or after the first billing cycle of July 2007 and continuing through the billing month of June 2008.
5. The parties shall abide by the terms of the Settlement Agreement and the settlement agreements in Docket Nos. 2005-1-E and 2006-1-E.

6. PEC shall file an original and ten (10) copies of the South Carolina Retail Adjustment for Fuel Cost and all other retail Tariffs within ten (10) days of receipt of this Order with the Commission and ORS.

7. PEC shall comply with the notice requirements set forth in S.C. Code Ann. § 58-27-865.

8. In future fuel proceedings, PEC shall utilize the methodology for developing the environmental component billing factor for each rate class to recover “variable environmental costs” under S.C. Code Ann. § 58-27-865(A)(1) established by the Settlement Agreement and approved in this Order.

9. PEC shall continue to file the monthly reports as previously required.

10. PEC shall by rate class account monthly to the Commission and ORS for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

11. PEC shall submit monthly reports to the Commission and ORS of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

12. PEC shall inform the parties and PEC customers on a quarterly basis as to the expected fuel factor to be set at the next annual proceeding.

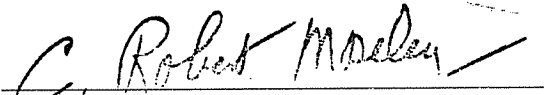
13. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



G. O'Neal Hamilton, Chairman

ATTEST:



C. Robert Moseley, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-1-E

June 1, 2007

IN RE:)	
)	
Carolina Power & Light Company, d/b/a)	SETTLEMENT AGREEMENT
Progress Energy Carolinas, Inc. Annual)	
Review of Base Rates for Fuel Costs)	
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This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”), Nucor Steel – South Carolina (“Nucor”) and Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., (“PEC”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (“Commission”) pursuant to the procedure established in S.C. Code Ann. §58-27-865 (Supp. 2006), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the testimony of the following witnesses without objection, change, amendment or cross-examination:

A. PEC witnesses:

(1) Bruce P. Barkley (Direct & Supplemental)

(2) Dewey S. Roberts, II (Direct)

B. ORS witnesses:

(1) Jacqueline R. Cherry (Direct)

C. Nucor witness (if any)

The Parties further agree to work collaboratively to submit testimony in support of this Settlement Agreement as set forth by the Commission's settlement procedures.

2. ORS's review of PEC's operation of its generating facilities resulted in the conclusion that PEC has made reasonable efforts to maximize unit availability and minimize fuel costs. Additionally, ORS has determined that PEC took appropriate corrective action with respect to any outages that occurred during the review period.

3. As a compromise to positions advanced by PEC, ORS, and Nucor, all Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties. The Parties agree that:

A. The fuel factor, exclusive of the environmental component, shall be set by adjusting the PEC proposed 2.675 cents/kWh fuel factor to reflect removal of \$20 million of total system forecasted SO₂ emission allowance costs plus the ORS adjustments set forth in ORS Witness Cherry's pre-filed testimony and shall be effective for the period beginning with the first billing cycle in July 2007 extending through the last billing cycle in June 2008. Such revised fuel factor is 2.651 cents per kwh.

B. The methodology for determining the “variable environmental cost” component charge, which shall be the charge used to recover the forecasted SO₂ emission allowance costs in this case (referred to in Paragraph 3(A) above), under S.C. Code Ann. §58-27-865(A)(1), as amended by Senate Bill 431, enacted in May 2007, shall be established in this proceeding as set forth in Paragraph 3(C) and this methodology shall also be utilized to recover all “variable environmental costs” in all future PEC fuel proceedings. Notwithstanding the above, in the event that any party proposes to change the methodology in the future, PEC and Nucor agree to support and defend the methodology established in this agreement. The methodology agreed to by the parties is consistent with the statutory requirements of S.C. Code Ann. §58-27-865(A)(1), as amended, and is just, reasonable and in the public interest.

C. The only “variable environmental costs,” subject to the amended fuel statute, proposed by PEC to be recovered in this proceeding, are the projected SO₂ allowance costs for the period July 2007 through June 2008 referred to in Paragraph 3(A) above. In order to comply with the new statute, the parties agree that an environmental component must be established for PEC’s South Carolina customer classes in this proceeding to recover the South Carolina allocated portion of the estimated \$20 million in PEC’s system SO₂ allowance costs for the forecast period for this case. As explained in Paragraph 3(A) above, these costs have been removed from the traditional fuel factor for recovery through the environmental component as defined in S.C. Code Ann. §58-27-865 (A)(1). PEC will provide to the parties in advance of filing in subsequent fuel cases, for review and input, the workpapers (a spreadsheet) showing its calculations of the rate class allocations and environmental component charges to ensure that they comport with

the settlement, along with any proposed revisions to the rate schedules to reflect the settlement. The methodology for setting the environmental component has been established by the parties looking specifically at PEC and its billing capabilities and should not set precedent for other utilities in South Carolina. The environmental component shall be developed through the following steps:

- (1) The South Carolina portion of PEC's variable environmental costs (in this case, the South Carolina portion of the projected \$20 million in PEC system SO₂ allowance costs) shall be allocated among the following customer classes: residential; GS (non-demand); GS (demand); and Lighting, based on the firm demand contribution of each such class to PEC's coincident South Carolina firm peak demand for the prior year (in this case, 2006). Curtailable and/or interruptible loads are not firm loads and shall be excluded from the class demands and jurisdictional demand for allocation purposes.
- (2) For the GS (demand) class which uses billing demands, the environmental component shall be designed to recover the costs allocated to it by establishing a charge per kilowatt. For those GS (demand) customers that subscribe to curtailable rate schedules the charge per kilowatt shall be applicable only to their Firm Billing Demand (kW). (For purposes of billing, all demand shall be billed the environmental cost component, but curtailable demand shall be credited an equivalent charge to reflect the fact the component is only applicable to Firm Demand.) Specifically, the environmental cost allocated to the GS (demand) class shall be divided by the projected Billing Demands (on-peak only for time-of-use schedules) to calculate the specific environmental component demand

charge. In determining the projected Billing Demands for the recovery period for those customers that subscribe to curtailable rate schedules, only their Firm Billing Demand shall be included. For Schedule LGS-RTP, the schedule shall be revised to include a new Environmental Recovery Charge that will bill the environmental rate times the difference between the maximum actual demand and the monthly customer baseline load billing demand (on-peak if used in conjunction with Schedule LGS-TOU). For the GS (non-demand), Residential and Lighting classes the environmental component shall be designed to recover the costs allocated to such classes by establishing a charge based on projected kWhs of usage. The environmental component for each class for the recovery period is attached as Exhibit A to this Agreement.

- (3) Any under- or over-recovery of the environmental component shall be accumulated and included in the environmental cost for recovery in the next fuel proceeding.

D. Pursuant to the settlement agreement approved by the Commission in Docket No. 2006-1-E, increased revenue generated by the fuel factor shall be used to first reduce the actual PEC under-recovery in the manner described in the Commission approved settlement agreement.

E. During its review of PEC's fuel costs, ORS identified a settlement of a lawsuit involving PEC and a coal supplier executed in January 2007. ORS did not have sufficient time to review the documentation regarding this settlement and determine whether any adjustments should be made. All parties agree that the determination of

what, if any, adjustments or true-ups are necessary concerning this matter is an issue that will be addressed in the next fuel proceeding.

F. PEC will continue to meet the requirements of the settlement agreements in Docket Nos. 2005-1-E and 2006-1-E, including, but not limited to, the requirement to inform the Parties and PEC's customers on a quarterly basis as to the expected fuel factor to be set in its next annual proceeding.

4. Except as expressly set forth herein, this Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party concerning the requirements of S.C. Code Ann. §58-27-865 in any future proceeding.

5. The Parties agree to accept all accounting adjustments as put forth in ORS Witness Cherry's testimony.

6. Except as identified in Paragraph 3(E), the Parties agree that any and all challenges to PEC's historical fuel costs and revenues for the period ending March 31, 2007 are not subject to further review; however, fuel costs and revenues for periods beginning April 1, 2007 and thereafter shall be open issues in future proceedings and will continue to be trued-up against actual costs in such proceedings held under S.C. Code Ann. § 58-27-865.

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues and motions currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. This written Settlement Agreement contains the complete agreement of the Parties. Except as set forth in paragraphs 3(B) and (C), the Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty, by providing written notice of intent to do so within five (5) working days of notice of the Commission's decision not to approve the Settlement Agreement in its entirety. In the event any Party withdraws under such circumstances, then the Settlement Agreement is null and void and each Party shall have the opportunity to present evidence and advocate its position in the proceeding and the Parties shall work together in good faith to develop and propose a new procedural schedule to put the Parties back in the position they were prior to the settlement.

9. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law.

10. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capabilities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

11. This Settlement Agreement is and shall be deemed for all purposes to have been prepared for the benefit of and through the joint efforts of the Parties hereto and shall not be construed or interpreted against the Party originating or preparing it.

12. Each Party represents and warrants that its representative(s) executing this Settlement Agreement is fully authorized to do so on its behalf. Each Party acknowledges its

consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party.

13. Each numbered or lettered subsection or paragraph herein is for reference only and has no substantive meaning.

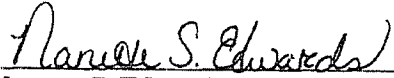
14. This Settlement Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one original and provable copy of this Settlement Agreement.

15. This Settlement Agreement fully represents the entire agreement of the Parties with respect to the matters addressed herein and supersedes all prior conversations, documents, and agreements (express or implied) in this Docket No. 2007-1-E. No terms or conditions of this Settlement Agreement may be modified or waived except by an instrument in writing duly signed by or on behalf of each of the Parties.

SIGNATURE PAGES FOLLOW

WE AGREE:

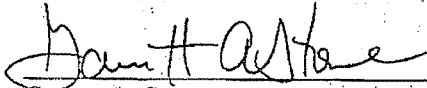
Representing and binding the Office of Regulatory Staff

A handwritten signature in cursive script, reading "Nanette S. Edwards", is written over a horizontal line.

Nanette S. Edwards
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WE AGREE:

Representing and binding Nucor Steel -- South Carolina



Garrett A. Stone

Brickfield, Burchette, Ritts & Stone, P.C.

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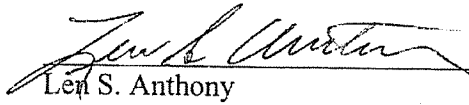
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WE AGREE:

Representing and binding Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc.



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EXHIBIT A

	Rate Class	Environmental Component Billing Factor (cents/kWh)	Environmental Component Billing Factor (cents/kW)
1	Residential	0.031¢	
2	General Service (non-demand)	0.030¢	
3	General Service (demand)		8¢
4	Lighting	0.00000	